

State of Montana

REPORT TO THE LEGISLATURE

Performance Audit

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PURCHASING DIVISION DEPARTMENT OF ADMINISTRATION

PLEASE RETURN

The Purchasing Division of the Department of Administration is responsible for making or supervising all purchases of goods and services for state government.

This report presents 39 recommendations for improvements in state purchasing, including:

- ▶ Decrease the use of sole source and brand name purchases, potentially resulting in savings of over \$80,000 on sole source buys (pages 11-13).
- ▶ Centralize the bidders lists and seek additional vendors, potentially saving in excess of \$100,000 (pages 15-22).
- ▶ Discontinue the use of "please writes," representing \$5-\$8 million in expenditures in FY 1978-79, and send request for quotations to all vendors on bidders list (pages 24-28).
- ▶ Periodically review direct agency purchasing limits to ensure processing costs are not exceeding benefits gained (pages 44-45).
- ▶ Seek funding for a computerized management information system; potential annual savings on time scheduled buys amounts to \$40,000 (pages 54-60).
- ▶ Allow state agencies to directly purchase printing services up to a set dollar limit, (pages 71-72), and eliminate awarding contracts based on discounts from the Franklin Catalog (pages 72-77).

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MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

May 12, 1980

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Herein transmitted is our performance audit of the Purchasing Division of the Department of Administration. A summary of the audit begins on page S-1. The purpose and scope of the audit are explained in Chapter I of the report.

This report contains recommendations to the Purchasing Division for improvements in the administration and operation of the central purchasing function. Included in the audit is an evaluation of direct purchases made by both agencies and university units.

The Department of Administration has concurred with all recommendations made in this report. Their response is contained beginning on page 78.

We wish to express our appreciation to the director of the department, the Purchasing Division, and the staff of the agencies and university units visited for their cooperation and assistance.

Respectfully submitted,

Morris L. Bruset
Legislative Auditor

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ADMINISTRATIVE OFFICIALS

David M. Lewis	Director Department of Administration
Lawrence E. D'Arcy	Deputy Director Department of Administration
Luther Glenn	Administrator Purchasing Division
Earl Fred	Assistant Administrator Purchasing Division
Patricia Johnston	Office Manager Purchasing Division



OFFICE OF THE LEGISLATIVE AUDITOR
PERFORMANCE AUDIT OF THE PURCHASING DIVISION
DEPARTMENT OF ADMINISTRATION

SUMMARY

This report is the result of our performance audit of the Purchasing Division of the Department of Administration. The Purchasing Division is directed to make or supervise all state government purchases. The audit focused on the effectiveness and efficiency of state purchasing activities.

Chapter I explains the organization and scope of the audit and describes sampling methods used.

Chapter II (page 5) presents a brief history of centralized purchasing, while indicating statutory authority and exemptions to division regulation. Financial and operational data are shown (page 7) and purchasing methods are explained.

Chapter III recommends several procedures for improving competition and increasing cost savings. We estimate that the Purchasing Division currently saves an average of 4.1 percent over agency estimates (page 11) on individual purchases. This savings amounts to approximately \$2 million. Decreasing sole source and brand name acquisition could increase savings by a minimum (pages 11-13) of \$80,000, based on our sample projections.

Improving and centralizing the bidders list will increase competition and potentially increase savings

by a projected \$100,000 (page 16). Distributing the central bidders list to state agencies will allow them to improve saving on their direct buys.

Chapter IV reviews techniques used by the Purchasing Division to acquire goods and services. One technique, called "please writes," represents between \$5 and \$8 million in FY 1978-79 expenditures. Division buyers using this procedure contact a limited number of vendors on the bidder list, and therefore receive limited competition. Several other problems are noted with this technique (page 25), and we recommend discontinuing the technique. The two primary techniques for volume buying, the Requisition Time Schedule and Term Contracts, were found to be troubled by various problems including improper scheduling, processing, classification of commodities, and bypass of these contracts by agencies (pages 29 and 38). Several recommendations are made to correct these problem areas (pages 33 and 39).

Chapter V deals with administrative aspects and points out several operational weaknesses. Rescheduling volume buys to avoid fiscal year-end delays (page 43), reducing unnecessary processing of purchase orders (page 44 and 46), reviewing direct agency purchase dollar limits to ensure cost savings (page 45), and reporting agency purchases which have bypassed the formalized purchasing process (page 46) are all recommended.

Additionally, inconsistencies in awarding resident bidder preferences (page 52) and in requesting bid and performance bonds (page 48) were noted. Recommendations for establishing written criteria for these areas are suggested.

Chapter VI reviews the availability of management information. Potential cost savings from a computerized information system amounts to \$40,000 per year (page 55). Various other recommendations made throughout the audit would be facilitated with such a system (page 57). Current typing needs indicate that automated typing equipment should be evaluated for cost effectiveness (page 59).

Chapter VII covers purchases made by the three largest university units. Montana State University, the University of Montana, and Eastern Montana College have been granted purchase expenditure exemptions of \$1,000. From our review of each unit's purchasing policies, we developed several areas of concern (page 62). Some concerns are related to recommendations covering the Purchasing Division. Another concern deals with a purchasing technique called "blanket purchase orders" (page 64), which involves negotiated rather than competitively bid buys. Another relates to review of university purchasing by Purchasing Division staff. We recommend that the division examine blanket

purchase orders to determine if they can be bid competitively. We also recommend that division personnel periodically visit the units to review procedures.

Chapter VIII relates to the state's acquisition of printing services. All requisitions for printing services must now be processed through the Purchasing Division. Data collected shows that 83.7 percent of state printing transactions are for \$500 or less (page 71). Requiring agencies to process requisitions through the Purchasing Division for low dollar purchases is not cost effective. We recommend allowing agencies to directly purchase printing services up to a specific dollar limit. Additionally, our examination of printing contracts based on discounts from the Franklin Catalog (page 72) showed a lack of competition and an inability on the state's part to determine whether or not contract terms were met by printers. We recommend that contracts based on discounts from the catalog be discontinued for future purchases.

CHAPTER I

INTRODUCTION

This report is the result of our performance audit of the Purchasing Division of the Department of Administration. The Purchasing Division is charged with making or supervising the making of all state government purchases. The audit included a review of the Purchasing Division's administration of state purchasing and an analysis of agency purchases.

ORGANIZATION OF REPORT

The report is presented in eight chapters. Chapter I presents an introduction to the report and summarizes the objectives and scope of our program review.

Chapter II presents background information about Montana's centralized purchasing function. Included are a brief history of central purchasing, a summary of relevant purchasing laws and administrative rules, and a summary of the Purchasing Division's current administration of state purchasing.

Chapter III presents information to show that centralized purchasing has a beneficial cost savings effect. The chapter includes discussions of those areas where we believe the Purchasing Division could further encourage competition and thereby increase cost savings to the state.

Chapter IV presents an analysis of various purchasing techniques. Included are recommendations to modify certain techniques to conform to state law and to increase purchasing effectiveness.

Chapter V includes a discussion of various administrative aspects of the purchasing function that could be made more efficient.

Chapter VI presents an analysis of the present purchasing management information system. Included is a recommendation to computerize the present system.

Chapter VII presents an analysis of purchasing at three university units. Chapter VIII presents an analysis of the present purchasing of state printing. These types of purchases were segregated due to the different rules and laws which apply to these purchasing functions.

SCOPE OF THE AUDIT

The audit focused on the effectiveness and efficiency of purchasing activities of the Purchasing Division. The audit also included an examination of purchases made directly by departments, institutions, and university units. In addition to audit work performed at the Purchasing Division, we sent questionnaires to the departments, institutions, and universities and visited a sample of these agencies. Three random statistical samples were selected to help appraise purchasing by the Purchasing Division and by

other state agencies. A sample of purchase orders processed and issued by the Purchasing Division was selected and traced from purchase orders to supporting documentation. This was used as part of our overall review of the Purchasing Division. Our other two samples consisted of transfer warrant claim (TWC) transactions listed on the Statewide Budgeting and Accounting System (SBAS). These transactions include those routed through the Purchasing Division, as well as those handled directly by the agencies. The first of the two TWC samples consisted strictly of purchases by the three largest university units. The other TWC sample included the remaining agencies.

The audit did not include an evaluation of expenditures exempted from Purchasing Division supervision such as major construction and professional services.

PURCHASING STUDIES

Two recent studies of Montana central purchasing were commissioned by the Department of Administration. Both were performed by consulting teams organized by the Interstate Consulting Clearinghouse of the Council of State Governments. One study examined Montana's overall purchasing system, while the other dealt specifically with the state's acquisition of printing services.

Two principal sources of information were utilized by the consultants in the examinations. The

first was interviews conducted during week-long visits to the state. The second was various written materials, statutes, rules and regulations, job descriptions, organizational charts, and budget data.

While this audit did not duplicate the two studies, several suggested actions in the Council of State Governments' reports are concurred with in this report. Where the recommendations are essentially the same we have noted the agreement.

CHAPTER II

BACKGROUND

Centralized purchasing was established in 1921 when the legislature created the State Purchasing Department. This department operated until 1951, when the State Comptroller was designated as the State Purchasing Agent. The Executive Reorganization Act of 1971 transferred purchasing duties to the Purchasing Bureau within the Department of Administration. Remaining within the Department of Administration, the Purchasing Bureau was given division status in 1976.

PURCHASING LAWS AND ADMINISTRATIVE RULES

The laws concerning state government purchasing are contained under Title 18, MCA. Section 18-4-101, MCA, defines the authority of the Department of Administration by stating: "The department shall make or supervise the making of all purchases of goods and services for the legislature, the supreme court, and each state agency, institution, and official."

Chapter 16 of the Administrative Rules of Montana covers the Purchasing Division. These rules establish many of the administrative procedures that the Purchasing Division follows when making or supervising the making of state purchases. These rules set forth some of the details for the solicitation of bids, the establishment of a bidders list, and the awarding of contracts.

EXEMPTIONS TO PURCHASING AUTHORITY

There are certain exemptions to direct involvement in statewide purchasing by the Purchasing Division. Over the years, the Purchasing Division has permitted agencies to directly purchase minor, nonrecurring materials, supplies, and equipment below specified dollar limits. In 1978, the limits were increased to \$150 for supplies and \$50 for equipment. Limits were further increased in January 1980 to \$200 for both supplies and equipment, and to \$300 if an agency agrees to follow designated purchasing policies. Emergency purchases may be made directly by an agency, provided telephone approval is given by the Purchasing Division. Montana State University, the University of Montana, and Eastern Montana College are permitted to purchase all goods and services which are not scheduled buys, and which do not exceed \$1,000 in value. Furthermore, institutions may purchase fresh fruits and vegetables unless the Purchasing Division specifically requires that they be ordered on requisitions.

FINANCIAL AND OPERATIONAL DATA

During fiscal year 1978-79, the Purchasing Division reported that a total of 12,438 requisitions were processed, and 13,308 purchase orders, totalling at least \$44 million, were issued. The operating costs of the Purchasing Division are summarized in Illustration 1.

PURCHASING DIVISION
OPERATING COSTS

	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>
Personal Services	\$228,965	\$250,029	\$301,248
Operating Expenses	29,864	33,861	39,500
Equipment	2,695	1,845	352
Total	<u>\$261,524</u>	<u>\$285,735</u>	<u>\$341,100</u>

Source: FY 1977-78 and 1978-79 Figures - Montana's
Financial Report 1977-78, 1978-79

FY 1979-80 - Office Manager, Purchasing Division

ILLUSTRATION 1

Eighteen FTE positions were appropriated to the Purchasing Division for fiscal year 1978-79. Eight buyers, plus one position to implement a procurement procedures program to conserve energy made up the professional staff. The Purchasing Division administrator and assistant administrator filled two of the buyer positions. Nine positions were allocated to the clerical staff.

METHODS OF PROCUREMENT AND PROCESSING

The Purchasing Division uses three primary methods to obtain competitive bids: price requests (PR), "please writes" (PW), and agency quotes. Price requests are generally used for items costing more than \$2,000, for items with complex specifications, or for items which are included on the list of scheduled or term contracted purchases. This method entails a formal, sealed bid process in which all vendors on the

appropriate bidders list are sent a request for a price quotation.

"Please writes" are less formal requests for price quotations which are usually sent to only three vendors selected from the bidders list. Please writes are often used for purchases which are less than \$2,000, are not regularly scheduled, or which have a limited number of vendors.

The final method available for purchasing is the agency quote. Using this method, the Purchasing Division reviews quotes collected by the agency, determines if the prices are competitive; and if so, awards the purchase order. Typically, agency quotes are used for equipment purchases between \$50 and \$150, and for agency purchases over the dollar limits which have not been processed through the Purchasing Division. These latter buys are referred to as "already received" purchases.

Procedures used to process a purchase through the Purchasing Division involve a number of activities. The process begins when an agency determines the need for a product and submits a requisition to the Purchasing Division. The buyer in charge of that product category then evaluates the information in the requisition, prepares specifications, and selects one of the previously described purchase methods. After price quotations are obtained, a purchase order is prepared

and sent to the appropriate bidder. When the requesting agency receives its goods, the agency prepares a transfer warrant claim. Finally, a state warrant is issued to the vendor in payment.



CHAPTER III

IMPROVING COMPETITION

Centralized purchasing operates on the premise that combined buying power can be utilized to gain economies of scale while effectively managing and controlling purchasing activities. Efficient centralized management also decreases administrative costs by eliminating the need for extensive individual agency involvement in the purchasing process.

BENEFITS OF COMPETITION

The National Association of State Purchasing Officials states that increased competition provides increased cost savings. While this is an accepted theory, we performed an analysis to determine if Montana's centralized purchasing system affords a cost savings.

The Purchasing Division requires agencies to estimate the cost of requested purchases and to suggest a vendor. We used these estimates to predict savings made by the Purchasing Division. The use of these estimates is based upon two assumptions. First, it is assumed that the agency estimate is the cost the agency has approved for the purchase of the particular good or service. Second, using these estimates presupposes that agencies actively identify competitive vendors. This premise was supported during our evaluation of the purchase order sample. We found that

when agencies suggested a vendor, 83 percent of the purchase orders went to the suggested vendor when bids were requested. This indicates that state agencies are locating competitive vendors.

Overall, we project that centralized purchasing saved 4.1 percent over agency estimates on purchases during FY 1978-79. If the approximately \$44 million in purchases processed through the Purchasing Division had been handled directly by the agencies, total purchases would have cost approximately \$46 million.

Our analysis demonstrates that centralized purchasing has saved the state money. The following sections address areas where we believe additional cost savings can be achieved through increased competition.

SOLE SOURCE PURCHASES

Sole source purchases are those where only one bid is sought. Twenty percent of the purchase orders in our sample were sole source purchases. We project that there were in excess of \$2.3 million in sole source purchases during fiscal year 1978-79.

Of the 20 percent of sole source purchases in our sample, approximately two-thirds lacked sufficient written justification to prove the need for sole source acquisition. Frequently, buyers approve sole source buys but then fail to document the basis for

their decision. Agencies should submit written explanations of all requested sole source purchases and the Purchasing Division should document the justification for sole source purchases.

We found that the Purchasing Division saves approximately 4.7 percent when 2 or more bids are sought and only 1.4 percent when a single bid is sought. If the Purchasing Division had obtained competition on fiscal year 1978-79 sole source purchases, a minimum of \$80,000 in additional savings may have been obtained. More than one bid cannot always be obtained, yet the incentive exists to make the attempt.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Document the justification for all sole source purchases.
2. Attempt to reduce the use of sole source purchases when possible.

BRAND NAME SPECIFICATIONS

Administrative rules of the Purchasing Division allow the use of brand name specifications only as a method of informing vendors of the quality of the product desired. We found that 44 percent of our sample of purchase orders contained brand name specifications. Eighty-four percent of these did not carry a

statement on the face of the request for quotation that alternate brands of equal quality would be accepted. On most of these, a statement of acceptance of alternates is only made on the back of the formal set of declarations accompanying the bid request.

We surveyed a number of vendors. Many of the respondents stated that they would not bid on a brand name request unless they carried the brand. Further, we found that nearly half of all purchases containing brand name specifications received only one bid while only one-third of purchases using other types of specifications received a single bid. This is a statistically significant difference which indicates the use of brand name specifications limits competition and increases the price of goods and services purchased by the state. Since brand name specifications limit competition, their use should be restricted.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Place a statement on the face of the request for quotation form, when brand name specifications are used, that equivalent goods or services will be accepted.
2. Limit the use of brand name specifications when possible.

IDENTICAL BIDS

Our purchase order sample contained one \$24,520 purchase order for asphalt. This purchase order was issued by the Purchasing Division based on an agreed unit price among three asphalt vendors. These three vendors submitted identical bids of \$12.26 per ton to the Department of Highways. The Department of Highways attached these bids to at least six requisitions divided among the three vendors which resulted in six purchase orders totalling over \$98,000. All six purchase orders were dated between June 13 and July 25, 1978, and were at the agreed price of \$12.26 per ton. It should be noted that the Department of Highways should have had the Purchasing Division obtain the price quotations since section 18-4-202, MCA, requires the Purchasing Division to obtain sealed bids for purchases over \$2,000.

In August 1979, the Purchasing Division requested sealed bids for 1,000 tons of asphalt from four asphalt vendors, including the three mentioned above. These three were the only bidders and they each quoted the identical price of \$14.15 per ton. The contract was awarded to the vendor whose plant was closest to where the asphalt was needed.

The three asphalt vendors submitted identical bids of \$12.26 per ton when they were dealing directly with the Department of Highways in 1978. They again

submitted identical bids of \$14.15 per ton when they quoted to the Purchasing Division in 1979. In both cases, the Purchasing Division should have noted the possibility of vendor agreements.

Neither the Purchasing Division's procedure manual nor their administrative rules state what acts constitute vendor collusion. Buyers are not instructed on how to detect collusive practices. As in the above example, identical bids can be an indicator of vendor collusion. Other practices such as bid rotations, customer allocation, or territorial allocation are also forms of vendor collusion. Normally a buyer must study the bidding history of a product to determine whether there is evidence to indicate illegal activities.

RECOMMENDATION

We recommend that the Purchasing Division provide instruction to all buyers on the indicators of possible vendor agreements.

BIDDERS LIST

The quality of the bids solicited is very important. Using a statistical analysis technique called multiple regression, we examined the relationship between the savings received by the Purchasing Division and factors such as the number of bids solicited,

the number of bids received, the method of purchase, the type of specifications used, and whether the purchase was made from the suggested vendor. We found that the most important factor was the number of bids received. We noted that, contrary to theory, the number of bids solicited by the Purchasing Division did not have a significant positive impact on savings in Montana when the other factors are considered.

During FY 1978-79, approximately 23 percent of the purchases in our purchase order sample were purchases in which the Purchasing Division sought competition, but received only one bid. We project this to represent at least \$1.5 million in FY 1978-79 expenditures. Sample data indicates that when the Purchasing Division actively seeks quotations, prior to issuing the purchase order, it saves approximately 12.3 percent of the agency estimate if two or more bids are received and approximately 5.6 percent of the agency estimate if a single bid is received. If the Purchasing Division had been able to obtain one or more additional bidders for these purchases, they would have been able to save in excess of \$100,000 based on projected savings from the agency estimate. Of course, additional vendors are not always available for all purchases, but possible savings indicate effort should be directed toward finding additional sources of supply. The following sections address

areas where we believe the bid process could be improved, thereby increasing competition and saving the state money.

Seeking Additional Vendors

Purchasing officials can increase competition by seeking new sources of supply. This can be accomplished by having an organized and ongoing program to identify additional vendors. Methods of finding new vendors could include: exchanging bidders lists with neighboring states, reviewing trade publications, attending trade shows, conducting market analyses, and advertising in national and state trade publications.

Purchasing Division buyers indicated that they do not maintain a concerted effort to expand bidders lists. They commented that they do not have the time available to seek additional vendors, except when no vendors are available for a particular purchase.

Agencies normally suggest a vendor when submitting a requisition to the Purchasing Division. Buyers usually send a request for quotation to the suggested vendor, as well as to other vendors, but often will not include the suggested vendor on the bidders list for future purchases. This is due to an interpretation of section 18-4-202, MCA, that states a vendor must submit a written request to the Purchasing Division to be placed on a bidders list. However, nothing in the law prevents the Purchasing Division from

contacting vendors to determine if they wish to be placed on the bidders list.

Vendors suggested by the agencies have been the low bidder over half the time when more than one quotation has been sought. This indicates that agency suggested vendors are competitive and should be placed on the bidders list for future purchases.

Central Bidders List

Each buyer maintains his own bidders lists. Buyers maintaining their own bidders lists create several areas of concern:

- There can be duplication of vendor information for vendors who supply several commodities handled by different buyers.
- A vendor may supply several buyers' commodities but only be known by some of those buyers.
- Information collected on vendor performance, including that which could be used to justify removal from the bidders list, may not be made known to all buyers.
- Vendor information would not be accessible for automation of the typing of mailing labels, etc.
- Charges of vendor/buyer collusion could be made since buyers add and delete vendors at their discretion.

These problems could be reduced or eliminated by creating one centrally maintained bidders list. The central bidders list could contain the following type of information for each vendor: name and address, vendor identification code, commodities supplied by vendor, region served by vendor, and designation as

resident or nonresident. This list could be cross-indexed by commodity code and vendor code so that prospective suppliers can be easily identified.

Commodity Classification

As mentioned earlier, the central bidders list could be cross-indexed by commodity code and vendor code. The commodity code system is a method of organizing all the commodities purchased by state government. Presently, the Purchasing Division only has an alphabetical list of approximately 270 commodities in the Purchasing Procedures Manual. The Statewide Budgeting and Accounting System (SBAS) breaks down expenditures by a four-digit expenditure code, but this breakdown is much too broad for use as commodity codes.

A commodity code system serves two main functions:

1. Vendors and commodities can be matched when making requests for quotations.
2. Management information can be collected on commodity usage.

Three codes are needed to collect purchasing information effectively: agency codes, vendor codes, and commodity codes. Agency codes are presently incorporated in SBAS while the vendor and commodity codes need to be added. The SBAS interface is necessary so that direct agency level purchases are included in total state purchasing data that should be collected.

Some of the management information that would be available with a commodity code system includes:

- total expenditures by commodity;
- expenditures by agency and commodity;
- expenditures by vendor and commodity; and
- latest purchase price and vendor by commodity.

This information could be used by the agencies to predict future needs and budgets. The Purchasing Division could use the information to determine the best method of purchasing various commodities.

The extent to which major commodity groups should be subdivided will depend on the type of purchase and the rate of response to requests for quotations. A Council of State Governments' report on state and local government purchasing suggested that commodity codes should extend to the level where a minimum response rate to solicitations of 50 percent is achieved.¹ Presently the Purchasing Division has a response rate of approximately 14 percent on sealed bids when considering bids on individual items. At least part of the reason for this low rate of return is improper commodity and vendor classification. We questioned several groups of vendors who failed to respond to requests for quotations. Several vendors in each group stated that they were receiving requests for quotations for items that they did not carry.

¹ State and Local Government Purchasing, The Council of State Governments, p. 53, March 1975.

This problem could be reduced significantly if a commodity and vendor code system were established.

Non-responsive Vendors

Many vendors continually fail to respond to bid requests. Purchasing officials said that they have no procedures for tabulating or summarizing responses to show which vendors have a history of not bidding. Section 18-4-202, MCA and purchasing policy state that a vendor may be removed from the bidders list for failing to respond to two consecutive solicitations. This cannot be accomplished without a historical summarization of responses.

Non-conforming Vendors

The purchasing procedures manual states that a vendor may also be removed from the bidders list, for a specified period, for repeated occurrences of non-conformance, after written warning. Nonconformance consists of such things as:

- Failure to make delivery within the time specified on the contract;
- Delivery of materials or equipment which does not meet specifications;
- Mishandling or misrepresenting supplies or services.

To remove a non-conforming vendor from the bidders list, the Purchasing Division must systematically collect and document problems in central vendor files. The Purchasing Division does not maintain central vendor files at this time. Information should be

collected on the vendor's capabilities, responsiveness to solicitations and performance; and other data that would be used to justify removal from the bidders list.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Establish procedures for seeking additional vendors, especially vendors suggested by state agencies.
2. Establish a centralized bidders list and vendor files.
3. Establish a purchasing code system that incorporates the use of commodity, agency, and vendor classifications.
4. Collect information on vendors' responsiveness.
5. Collect and document problems with vendor non-conformance in central vendor files.

AGENCY PURCHASES

All state agencies are mandated by statute to competitively bid purchases. We reviewed the purchasing practices of several state agencies (direct purchases). For the majority of sample purchases analyzed, we found that the agencies failed to indicate the vendors they contacted or the resultant bids. Normally, the only documentation available was the agency purchase order and the invoice. Without the documentation, the degree of competition received by

agencies is impossible to evaluate. Rules for proper bid documentation should be established by the Purchasing Division and communicated to all agencies.

Currently, no centralized bidders list exists for the State of Montana. It is therefore impossible for the agencies to know which vendors have requested to bid on all state purchases. Without access to the bidders list prepared by the Purchasing Division, full competition cannot be achieved. Making sections of a centralized bidders list available for direct agency purchases will alleviate this problem.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Establish and communicate rules for proper agency documentation of competition.
2. Offer and supply agencies with sections of the bidders list for the commodities they buy directly.

CHAPTER IV
PURCHASING TECHNIQUES

The Purchasing Division uses several methods to acquire goods and services for the state. The use of please writes was mentioned earlier in Chapter II and will be covered in more detail below. The Requisition Time Schedule and term contracts, both of which use price requests to obtain bids, are also discussed below.

PLEASE WRITES

Purchasing Division buyers normally use a please write to obtain bids for purchases estimated to be under \$2,000. A please write is a multi-part form that allows a request for quotation to be sent to three vendors. At times, the Purchasing Division will request quotations from more than three vendors and in such cases will use another please write form. The Purchase Order sample showed that when the Purchasing Division uses a please write, they request quotations from an average of 2.4 vendors and receive an average of 1.6 bids in response. Please writes used in FY 1978-79 resulted in purchases totalling an estimated \$5 to \$8 million.

Section 18-4-203, MCA, sets forth three provisions for purchases estimated to be less than \$2,000. These provisions are:

1. sealed bids are not required;

2. bids are to be solicited from each business filing a written request to be listed for solicitation; and
3. bids are to be secured without advertising.

Based upon their judgment, buyers select a limited number of vendors to receive request for quotes, therefore, not all vendors on the bidder list have an opportunity to bid as required by law. In addition, section 18-4-202, MCA, requires that sealed bids be used for expenditures estimated to be \$2,000 or more. Please writes cannot be considered sealed bids because they are opened by the receptionist and given directly to the buyer as they arrive in the mail each day. During FY 1978-79, an estimated 13.4 percent of please writes were used for expenditures over \$2,000. We estimate that the please writes used for purchases over \$2,000 resulted in a minimum of \$1.7 million in expenditures.

Please writes are not specifically authorized by law and resulted in at least \$5 million in purchases during FY 1978-79. Rather than suggest a change in law to allow the use of please writes, we performed the following analysis to determine if the use of please writes could be discontinued in favor of more effective and competitive purchasing techniques.

Problems with Use of Please Writes

Along with not being specifically authorized under purchasing statutes, several other problems

exist with the use of please writes. Problem areas include:

- failure to speed processing time;
- inadequate forms;
- forms indicating degree of competition sought;
and
- potential for vendor/buyer collusion.

These points are reviewed in greater detail below.

The expected advantage that please writes have a significantly faster turnaround time than the sealed bid process does not materialize to the extent anticipated. Our analysis shows that average time from requisition date to purchase order date is 41 days for sealed bids and 35 days for please writes.

The please write form itself also presents a problem. It is possible for a vendor to read the names of other vendors who received the please write from his copy, even though an attempt is made to have them blacked out. Vendors could adjust their bids according to knowledge of how competitive the other vendors are. Vendors might also be encouraged to contact one another and make bidding agreements.

Please writes are often used when buyers are requesting a quotation from a single vendor. A minimum of 37 percent of all please writes are sent to only one vendor. When a please write is sent to one vendor, the other name and address spaces are not

blacked out. A vendor may determine he is the only one who is submitting a quotation and adjust the bid accordingly.

Processing of please writes could lead to charges of vendor/buyer collusion. The buyer maintains the bidders list from which he selects the vendors who will be sent a bid request. As mentioned earlier, returned please writes are opened and given to the buyers as they arrive in the mail each day. With no independent record of which vendors actually submitted bids it would be possible for buyers to discard any of the bids. Also, with the buyers aware of the actual bids, it would be possible for a vendor to be made aware of his competitors' bids prior to the closing date. Our review of the please write process did not reveal any such collusive practices, however, the possibility exists.

Replace with Sealed Bids

Quotations that in the past have been obtained by please writes could be obtained by the agencies in some cases and by the sealed bid process in the remaining cases.

Raising the dollar limit for agency purchases, as discussed later in Chapter V, would have eliminated approximately 54 percent of the please writes in our sample. For FY 1978-79 this would have reduced the 6,239 please writes by at least 3,000. The remaining

3,239 please writes could be obtained by the sealed bid process. This would have increased the FY 1978-79 sealed bid volume from 1,048 to approximately 4,300, but correspondingly, would have reduced the need to process at least 3,000 please writes.

RECOMMENDATION

We recommend that the Purchasing Division discontinue the use of please writes and request sealed bids from all vendors on the bidders list.

REQUISITION TIME SCHEDULE

The Requisition Time Schedule (RTS) consists of approximately 150 dates throughout the year which are deadlines for all agencies to have requisitions for various commodities to the Purchasing Division. The RTS covers approximately 85 different commodities with either annual, semi-annual, or quarterly calls for quotations. According to Purchasing Division policy, requisitions which do not meet the schedule are held until the next call, unless a letter of justification accompanies the requisition.

Generally, the Purchasing Division combines the agencies' requirements for each scheduled call on one request for quotations. Each agency's requirements are listed separately on the form, even though they may be ordering identical items. The request for

quotation form (PR form) is then sent out to each vendor on the appropriate bidders list.

Time schedule buys take advantage of cost savings from volume buying and reduce paperwork that would be necessary with numerous smaller purchases. Commodities on the RTS generally have the following characteristics:

- Supplies used by many agencies throughout the year.
- Supplies for which agencies can determine their needs in advance.
- Items that can be stored by each agency until the next scheduled call.

Our purchase order sample showed that approximately 23 percent of the purchase orders issued by the Purchasing Division are RTS purchases. For FY 1978-79 these purchases totalled a minimum of \$4.3 million or at least 10 percent of the dollar volume handled by the Purchasing Division.

Bypassing The RTS

Agencies are bypassing the Requisition Time Schedule. Based on our purchase order sample, we project that over \$500,000 in FY 1978-79 purchase orders processed through the Purchasing Division bypassed the RTS. Our transfer warrant claim samples showed that the agencies made a minimum of \$160,000 in direct expenditures that bypassed the RTS. The three major university units expended a minimum of \$26,000 on purchases which bypassed the RTS. It should be

noted that when purchases bypass the RTS, benefits of volume buying are reduced.

Several reasons were given by agencies for bypassing time schedule buys. They include:

- Some needs are difficult for the agencies to predict.
- Processing delays at the Purchasing Division hold up delivery of goods to the agencies.
- Some schedule dates hinder the agencies in predicting their needs and/or cause delivery of goods at the wrong time of the year.

Each of these problems are discussed later in this section of the report.

Reduced Competition

The Purchasing Division sends out an average of 24 requests for quotations and receives an average of 3 bids (a 12 percent response rate) on each of the individual items under RTS purchases. As discussed in the bidders list section, the low response rate is partly the result of improper commodity and vendor classification and partly due to the Purchasing Division not removing vendors from the bidders list who continually fail to bid.

In many cases, the Purchasing Division only receives one bid for individual items. Five or six vendors may respond to one request for quotations but they each will only bid on part of the items. The low number of bids received on individual items reduces competition. One method for the Purchasing Division

to increase competition would be to actively seek additional vendors for the bidders list as discussed on page 17. This same section examines the savings that are possible with increased competition.

Another item that reduces competition, and therefore the possible savings, is that multiple delivery points are used. That is, each agency receives its share of the scheduled call separately. One vendor for office supplies estimated that a single delivery point would be worth an additional 10 percent price reduction. The possible savings indicate that the Purchasing Division should explore the concept of central receiving at least for Helena area agencies.

Commodities

Buyers have suggested numerous changes that should be made in the RTS. Three buyers mentioned a total of 16 commodities that could be removed from the RTS. They also suggested changes in scheduling and possible additions to the schedule. Agencies also told us of several commodities that they would like to see removed from the RTS. They suggested that some of these commodities might work better on term contracts and some should be ordered on an as-needed basis.

Buyers indicated that the Purchasing Division does not have specific procedures to identify which commodities should either be added or removed from the RTS. We compared the 1978 schedule to the 1979 and 1980 schedules and found only minor changes.

The Purchasing Division should consider having regular meetings of buyers and administrators to specifically discuss changes in the RTS. Ideas and suggestions should also be solicited from agency personnel either through meetings or by questionnaires. Presently, the Purchasing Procedures Manual requests that agencies inform the Purchasing Division if scheduling can be improved. In order to ensure proper scheduling, problem areas should be more actively pursued.

Scheduling and Processing

The purchase order sample showed that the RTS processing time from schedule date to purchase order date averaged approximately 58 calendar days. This can be broken down as follows:

	<u>Average Time</u> <u>Calendar Days</u>
--Buyer analyzing requisitions and preparing the request for quotation form.	21.7
--Form being reproduced.	6.0
--Vendor preparing bid and mail time both ways.	17.7
--Buyer tabulating and awarding the bid.	12.3
	<u>57.7</u>

Most of the agencies that we contacted complained of processing delays at the Purchasing Division. These delays increase at the end of the fiscal year as agencies make more purchases. Problems noted by

agencies resulting from long processing time include price increases during the period and arrival when the item is no longer needed. Delivery is often made four or more months after the requisitions are submitted to the Purchasing Division. Part of this delay is the result of the vendor taking extra time after receipt of the purchase order. The end result is that agencies have to predict their needs farther into the future and must also keep extra inventory on hand.

Some agencies suggested that the closing dates for requisitions should be changed for various commodities. They stated that at some dates they cannot predict their needs and/or the materials arrive at the wrong time of the year. This problem could also be discussed at the Purchasing Division meetings after obtaining agency input.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Attempt to reduce the bypassing of Requisition Time Schedule purchases when possible.
2. Investigate the possibility of central receiving at least for Helena area agencies.
3. Have regular meetings of buyers to discuss changes in the Requisition Time Schedule.
4. Seek input from agency personnel on suggested changes in Requisition Time Schedule commodities and schedule dates.

TERM CONTRACTS

Term contracting is a purchasing technique which establishes a specific source for a given product for a designated period of time. In most cases, the contract period coincides with the fiscal year, and throughout this time the contract commodities are purchased directly by state agencies at a pre-specified unit price. In addition to constant prices, term contracts offer the advantages of competitively bidding quantity price discounts, while allowing direct agency purchases of goods on an "as needed" basis. In this manner, state agencies avoid the storage problems but receive the benefit of volume buying. Furthermore, agencies can buy goods directly from the vendors without having requisitions processed through the Purchasing Division. In this way, a substantial reduction in paperwork and delivery time is realized. In general, term contracts are used to purchase goods or services which are needed relatively frequently by most units of state government. Term contracts are competitively bid with all vendors on the bidder lists receiving a request for quotation.

Term Contract Evaluations

In reviewing the use of term contracts, a major problem area was found in the lack of adequate evaluation and review procedures. Specifically, it became

apparent that the Purchasing Division was not receiving a report of vendor sales volume on the majority of the contracts. This was found to be true despite provisions in virtually every contract which require vendors to submit reports of the total volume of sales transacted during the contract period. As stated in the purchasing procedures manual, one of the objectives of the Purchasing Division is to "Buy the right merchandise of the proper quality and quantity at the right time and price from the proper source." Unfortunately, without purchase information feedback, the task of determining whether or not that objective is attained becomes difficult.

Generally, the evaluation problem was noted in two primary areas. First, the Purchasing Division is unable to provide prospective vendors with accurate estimates of anticipated total purchase quantity. If this information were available, vendor discounts on products might be increased. This situation is possible because with accurate order quantities, the vendor can reduce his own potential cost liability due to uncertainty in the timing and volume of purchases from his supplier. Furthermore, during periods of rapid economic inflation, prior knowledge of product purchase levels constitutes a stabilizing and positive influence to vendors who might otherwise be reluctant

about bidding on a contract requiring uncertain quantities of merchandise. As cost savings to the vendor increase, so does the likelihood that at least some of those savings will be passed on in the form of greater discounts to the state.

The second aspect of the term contract evaluation problem concerns information on the relative usage levels of the various items which may be purchased on a single contract. When evaluating bids in terms of the lowest cost to the state, the relative usage levels of items have a direct impact on the expected total charges on the contract and, therefore, its proper awarding. Since the present usage levels are not taken into account, the bid is awarded on the basis of lowest total per unit cost. This may have the effect of increasing cost to the state as demonstrated in the following example.

On a two-item contract, let us assume vendor "A" bids item one at \$2.00 per unit and item two at \$4.00 per unit. Vendor "B" bids the same items at \$1.25 and \$4.50, respectively, as shown below.

	<u>Bid on Item 1</u>	<u>Bid on Item 2</u>	<u>Total Bid</u>
Vendor A	\$2.00	\$4.00	\$6.00
Vendor B	\$1.25	\$4.50	\$5.75

Vendor B is awarded the contract based on total bid.

In this example, if the first item was bought less frequently than the second item, then the contract may have been awarded incorrectly as can be seen below.

	Cost of 500 Units of <u>Item 1</u>	Cost of 2,000 units of <u>Item 2</u>	<u>Total Cost</u>
<u>Cost Vendor A</u>	\$1,000	\$8,000	\$9,000
<u>Cost Vendor B</u>	\$625	\$9,000	\$9,625

Vendor A should receive the contract based on total cost of the contract.

Without information on previous purchase volume it would be extremely difficult to properly evaluate such a situation.

During our examination of various term contracts we noted an instance in which one term contract was awarded in a manner similar to that described in the example. In discussing the contract with the buyer, the possibility arose that the contract had been improperly awarded. Based upon the buyer's opinion as to the product purchased with the greatest frequency, the rejected bid would have been the most economical for the state. The buyer believed that in the cases of contracts such as this, problems can arise because bid evaluation may become largely a matter of intuitive judgement.

Information is the basic element in making management decisions and in evaluating the results of resource expenditures. Without information on the

volume and type of purchases made on a given term contract, the Purchasing Division has little or no knowledge of past buying trends. Accurate data on current usage rates is necessary to anticipate future needs and to correctly award term contracts.

Bypass of Term Contracts

Our examination also revealed the occurrence of a significant number of situations in which state agencies (including universities) were bypassing the use of established term contracts. On the basis of our transfer warrant claim sample, we project that at least 5 percent of all the purchases coming under term contracts bypassed these agreements during FY 1978-79.

Bypassing term contracts creates two problems. In the long run, the cost of goods purchased by the state in this manner is much greater than necessary, as the advantage of discounted prices is lost. Furthermore, when a term contract is established with a vendor, the agencies of the state of Montana have a contractual obligation to purchase appropriate items from that vendor. Unjustifiable purchases from vendors other than the contract holder may leave the state vulnerable to potential legal liability.

We discussed the bypass of term contracts with agency officials. At least part of the problem is due to lack of agency knowledge of what products are covered by term contracts. Also, at times, agencies

find it more convenient to buy an item locally rather than from the term contract holder.

The Purchasing Division has attempted to reduce term contract bypasses and other agency problems by educating the agencies about proper purchasing procedures. Training programs have been initiated for agency personnel to explain purchasing procedures in detail and to discuss mutual problems. Efforts to educate agency personnel on the importance of following proper purchasing procedures should be continued.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Call for and enforce contract terms requiring vendors to report their annual volume of sales.
2. Periodically evaluate relative purchase volumes of term contract products.
3. Continue efforts to educate state personnel in term contract procedures.

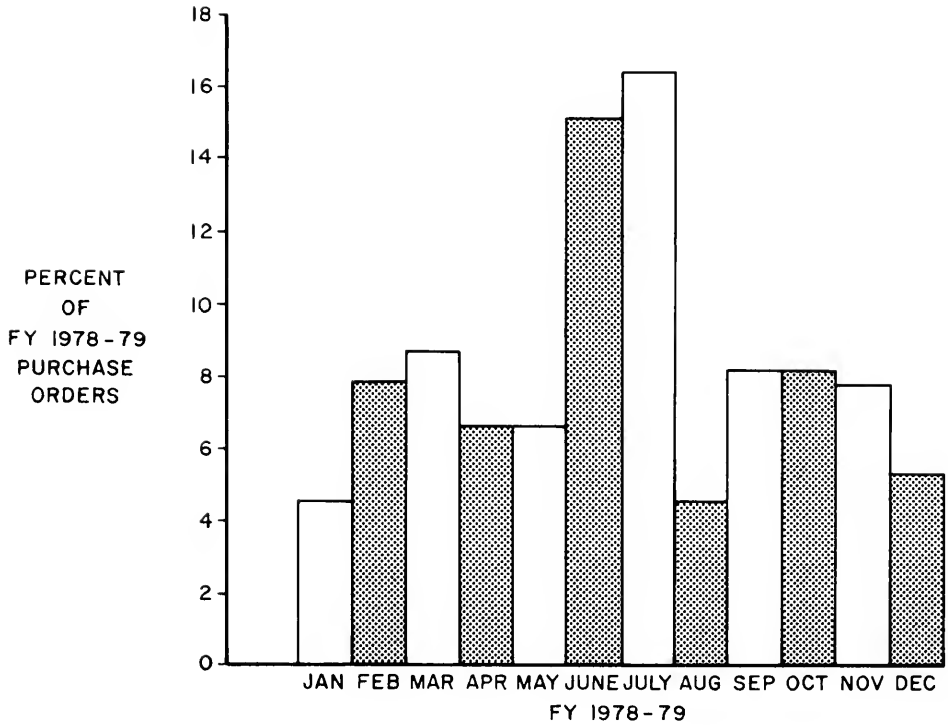
CHAPTER V
ADMINISTRATIVE ASPECTS

The Purchasing Division received 12,468 requisitions resulting in 13,308 purchase orders during fiscal 1978-79. If the administrator, assistant administrator, and all six buyers divided the workload evenly, each would have to process more than 1,500 requisitions, and more than 1,600 purchase orders. This number of requisitions limits the amount of time buyers have to complete individual purchases. An alternative to the present situation is to adjust and reduce the Purchasing Division's workload and allow them to concentrate on more important purchases.

DIVISION WORKLOAD

Illustration 2 shows the distribution of purchase orders through fiscal year 1978-79. The percent of total purchase orders processed monthly indicates an uneven level of workflow. Greatest demand for the Purchasing Division's services occurs in the months of June and July, coinciding with the fiscal year-end. Budgetary uncertainties on the part of state agencies will continue to make the transition period between fiscal years an active time.

DISTRIBUTION OF PURCHASE ORDERS



Source : Compiled by the Office of the Legislative Auditor

Illustration 2

Altering term contract and some time scheduled buys to avoid the fiscal year-end crunch would provide for more effective usage of staff time. During our review, we found evidence that the renewal or re-awarding of term contracts has been delayed for varying periods of time. For example, in one case, the renewal of a term contract did not occur until after a lapse of 41 days. Additionally, two university units noted they were not informed of the successful vendor on several term contracts for as long as six months after the contract starting date.

Between the time a term contract expires and a new one is awarded, no binding agreement involving the state and vendor is in existence. When this situation arises, the Purchasing Division normally tries to make informal, temporary arrangements with the contract holder of record to continue supplying the product at the same terms. However, under these circumstances, neither the vendor nor the agencies have an explicit obligation to transact business with each other. The agency can buy from another source. The vendor of record could alter his discount terms or increase prices. Hence, there is an increase in the possibility of greater cost to the state. Such situations create confusion among state agencies and may potentially foster vendor animosity in those cases where the vendor of record loses the contract upon rebidding.

A large percentage of term contracts are bid on a fiscal year basis. Rescheduling these contracts, along with major time scheduled buys, to less active months will even out workload. Balancing workload should increase buyer efficiency while decreasing processing time during peak workload periods.

RECOMMENDATION

We recommend that the Purchasing Division reschedule the awarding of term contracts and major requisition time schedule (RTS) buys to avoid the fiscal year-end.

UNNECESSARY PURCHASE ORDERS

From our review of the purchase order sample, we project that between 450 and 950 purchase orders were issued for purchases not required to be processed by the Purchasing Division. These included purchases within agency dollar limits, purchases coming under term contracts but processed through the Purchasing Division, and payment of utility bills which are exempt from the processing requirement. In addition, we found a number of purchase orders covering such items as continuation of lease agreements for which the Purchasing Division added little to the process.

A conservative estimate indicates the Purchasing Division spends over \$2,800 handling totally unnecessary purchase orders. Purchasing could save much of

this by screening requisitions and authorizing agency purchases where appropriate. This could be accomplished through use of requisition cancellations. Once Purchasing Division personnel determine that the purchase is inappropriate for them to handle, they would refer the purchase to the agency for processing.

RECOMMENDATION

We recommend that the Purchasing Division use requisition cancellations for purchases inappropriate for the Purchasing Division to process.

RAISING DOLLAR LIMITS

One method for the Purchasing Division to reduce its workload would be to raise the dollar limits for agency level purchases. Dollar limits for agency level purchases were set at \$50 for equipment and \$150 for supplies and materials in March of 1978. Three of the university units were given \$1,000 purchase limits in 1975. Agency dollar limits have been modified and as of January 1, 1980, a \$200 limit will exist for all non-contracted buys. This limit increases to \$300 if agencies are willing to sign an agreement to abide by all established procurement policies.

A consistent complaint made by agency personnel was that the old dollar limits were too low. They argued that advantages of processing purchases through

Purchasing were offset by time delays, higher inventory costs and agency staff time spent on central processing. Several agencies claimed they could obtain merchandise faster and at equal prices. They said they could make purchases at higher dollar limits without additional personnel. In an attempt to validate these claims we examined the dollar limits.

Average Purchasing Division processing costs were determined to be a minimum of \$20 per purchase order (PO). We compared the processing cost for PO's with the average savings obtained by the Purchasing Division for PO's in our sample. We found that Purchasing was not recouping its processing cost for PO's under \$300. If agency processing costs are also considered, the breakeven point could go as high as \$500. If the dollar limits were raised to \$300, at least 3,500 fewer PO's would be processed. With \$500 as the limit, Purchasing would process 4,700 fewer PO's. A periodic effort should be made by Purchasing Division management to evaluate the efficiency of agency dollar limits and to make revisions when necessary.

RECOMMENDATION

We recommend that the Purchasing Division periodically review dollar limits for agency level purchasing to ensure cost savings are occurring.

Tires, Batteries, and Filters

Prior to January 1, 1980, the Purchasing Division directed that all purchases of tires, batteries, and oil filters be processed through Purchasing, regardless of the dollar amount of the buy. This procedure was followed to ensure purchase at the specified state price and the issuance of a purchase order with a Federal Exemption Certificate. This policy was discontinued as a result of audit work in the area.

Our sample review indicated that the Purchasing Division processed between 900 and 1,500 purchase orders for tires, batteries, and oil filters under \$150 during FY 1978-79. Between \$5,400 and \$9,000 per year was expended by the Purchasing Division just on these small purchases. This does not include agency time spent processing the requisition for state approval. Delegating tire, battery, and oil filter purchases under \$300 to agencies eliminates this unnecessary processing cost.

ALREADY RECEIVED PURCHASES

Purchasing requires that invoices and requisitions for already received purchases over the dollar limits be submitted for processing. Purchasing then issues a confirming purchase order to the vendor. In such situations, Purchasing's handling of the paperwork does not act to speed processing or save the state money. No report of already received purchases

is now compiled by the Purchasing Division. A manual review of all purchase orders would have to be undertaken to produce such a report.

Nearly 8 percent of our sample or a projected 700 to 1,300 purchase orders were issued for already received purchases (other than tires, batteries, and oil filters). The cost of processing purchase orders through the Purchasing Division for already received items conservatively amounted to between \$4,200 and \$7,800 in FY 1978-79.

We contacted the Accounting Division of the Department of Administration and found that they do not require a purchase order for payment. Therefore, only the Purchasing Division really mandates a confirming purchase order. Information on already received purchases is valuable data and should be reviewed for type of purchase and for the reason for initially bypassing Purchasing. A formalized report should be generated by the Purchasing Division with a breakdown by agency. This data should be made available to affected agency management to inform them of buying practices within their organizations. Both Purchasing Division and agency managers should utilize this report to review buying procedures and to make changes in procedures where necessary.

Therefore, the practice of requiring agencies to submit requisitions for already received purchases

should be continued. There is no need to continue the practice of sending vendors confirming purchase orders for already received goods.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Require submittal of already received agency purchases but discontinue processing confirming purchase orders.
2. Provide periodic agency reports on already received purchases.

BID AND PERFORMANCE BONDS

The Purchasing Division usually requires bid and performance bonds for purchases over \$2,000 which involve labor performance or which involve large volumes and dollar amounts of materials; however, such requirements are at the discretion of each buyer. Bond requirements appear in the terms included in the "Request for Quotation" which is sent to prospective bidders. Once the bid is awarded, the statement requiring a performance bond is not always included on the purchase order. Since the purchase order represents the contract between the state and vendor, bonding requirements should be restated.

It is likely that most responsible vendors will include in their bids the cost of obtaining bonding.

Thus, such cost is passed on to the state in the purchase of the goods or services. Purchasing Division management should review the effectiveness of requiring bid and performance bonds in order to establish standards for their use. Criteria should be established instructing buyers on the dollar amount and type of purchases requiring bonding.

In a large number of instances reviewed, vendors did not provide evidence of performance bonds to the Purchasing Division. By failing to enforce compliance with performance bond requirements when called for, the Purchasing Division is, in effect, incurring unnecessarily high costs. If the state is paying for the cost of performance bonds, then it should be receiving their value in the form of due monetary protection.

Written criteria on the use of bonding should be established by the Purchasing Division and consistently applied to all purchases.

RECOMMENDATION

We recommend that the Purchasing Division establish and consistently apply written criteria for use of bid and performance bonds.

RESIDENT BIDDER PREFERENCE

Section 18-1-102, MCA provides that residents of the state of Montana can submit bids up to three

percent higher than nonresident bidders and still be awarded the contract. In addition, bids for materials, supplies, or equipment manufactured or produced in this state by Montana industry and labor receive a three percent preference over bids for similar items not so manufactured or produced.

Section 18-1-103, MCA, defines the word "resident" for the application of the resident bidder preference. To be considered a resident bidder a firm must meet one of the following requirements:

- An individual residing in Montana for a period of more than one year immediately prior to bidding.
- A partnership or association with a majority of its members residing in Montana for a period of more than one year immediately prior to bidding.
- A corporation organized under the laws of the state of Montana, if the corporation is not a wholly owned subsidiary of a foreign corporation or formed for the purpose of circumventing the residency requirement.

The Purchasing Division determines a bidder's eligibility for the three percent preference based on the information supplied by the bidder on a notarized affidavit form.

Inconsistent Eligibility Rulings

The Purchasing Division's buyers make the actual determinations of eligibility for the three percent preference. We examined the files of affidavit forms and noted several inconsistencies in the determination of eligibility. Examples of the inconsistencies follow:

- A Montana corporation, selling products produced in-state, ruled eligible one year and not eligible two years later. This corporation could be determined eligible two different ways: 1) as a Montana corporation; or 2) for selling products manufactured in Montana. In any case, the determination should have been consistent from one year to the next.
- Two Montana residents both operating a Hobart Sales and Service business with one ruled eligible and the other ineligible. These individuals could be considered eligible based on being residents for more than one year. If the determinations were made based on Hobart being a foreign corporation then the determinations should have been consistent.
- Two Montana residents with one selling Shaklee products and the other Willex products. The former was ruled eligible and the latter ineligible. This example is similar to the one above and should have had consistent rulings.
- A Montana resident acting as a sales representative for a foreign corporation ruled ineligible while a nonresident sales representative for a similar foreign corporation ruled eligible. If the rulings were based on the individuals' residencies then the rulings should be reversed. If the rulings were based on both being foreign corporations then they should have been consistent.

The Purchasing Division did not have a written policy to guide the buyers in making eligibility decisions until the topic was covered at a May 1979 staff meeting. This may be part of the reason for the inconsistencies in eligibility rulings noted above. Guidelines should be finalized by the Purchasing Division's administration and included in the Administrative Rules of Montana and the Purchasing Procedures Manual.

With all the buyers making eligibility rulings the possibility of inconsistent rulings increases since each may have a different interpretation of the criteria. The four examples given above are pairs of inconsistent eligibility rulings. In all of the four cases, the eligibility determinations within each pair were made by two different buyers. Inconsistencies brought about by having all the buyers making eligibility rulings could be eliminated by centralizing the authority with one person, possibly the Purchasing Division assistant administrator.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Provide written guidelines on the determination of bidders' eligibility for the three percent resident preference.
2. Centralize the authority for making these determinations with one person.



CHAPTER VI

MANAGEMENT INFORMATION SYSTEM

Currently, all functions of the Purchasing Division are processed manually. Bid organization, invitation for bid, tabulation, analysis, award, and preparation of purchase orders are completed by hand. Each bid invitation is individually addressed by secretaries from a bidders list determined by the buyer. Buyers hand tabulate, analyze, and award bids. Time taken to perform these tasks is dependent on the complexity of the purchase. Certain large volume purchases under the Requisition Time Schedule (RTS) and Term Contracts (TC's) take weeks of buyer's time in preparation, tabulation, and analysis. Clerical staff time is also significant in these areas. Due to workload and scheduling, little time remains for the collection of management information.

Department of Administration (D of A) officials realized a problem existed with purchasing process time and with the lack of management information. An internal study prepared by the Information Systems Division of D of A recommended an automated information system and stated that anticipated benefits made the system feasible and desirable. Projected costs for development and implementation of the system were set at \$95,000. This figure is a gross estimate covering personnel services for the planning, development, and installation of the proposed system.

A request for appropriations for the system was submitted to an appropriations subcommittee during the 1979 legislative session. This request was denied. Reason for denial was insufficient cost/benefit data.

Potential Cost Savings

Computerizing the management information system will provide data to Purchasing Division management for improved decision making. Speeding processing time will solve many problems voiced by agency personnel. Decreased turnaround time will enhance agency reliance on Purchasing, while decreasing the need to store quantities of goods. Reduced agency inventory cost is one potential benefit of the system. Immediate benefits to the Purchasing Division would relate to more efficient processing of volume purchases.

Illustration 3 essentially duplicates data provided in the section on the requisition time schedule. Added to the table is an estimate of potential time savings with a management information system.

RTS PROCESSING TIME

	<u>Average Time</u> <u>(Calendar Days)</u>	<u>Potential</u> <u>Time Savings</u> <u>(Working Days)</u>
Analysis of Requisition and Preparation of Re- quest for Quotation	21.7	7
Form Reproduction	6	0
Vendor Action	17.7	0
Buyer Tabulations and Award	12.3	5
	57.7 Average Processing Time	12 Potential Time Savings

Source: Office of the Legislative Auditor.

Illustration 3

Time savings are based on working days and take into account the lower priority assigned to RTS processing. Based on cost data supplied by the Purchasing Division, the reduced time spent on RTS processing alone equates to an estimated annual \$40,000 cost savings. Time demands on both professional and clerical staff, imposed by large quantity purchases, can be significantly reduced with automated information and processing systems. Additional savings on term contracts and other volume buy processing time should also be expected. The significance of savings in both clerical and buyer time supports the implementation of the system.

PURCHASING INFORMATION

Previous audits of the Purchasing Division by the Office of the Legislative Auditor have noted the lack of management information available and have recommended the implementation of a computerized information system. A Council of State Governments' review of Montana's purchasing system also recommends such a system. The report states, "Regarding data collection and retrieval capabilities, the consulting team found that there is a lack of a systematic capacity that could provide reliable and timely information about all state government purchases."¹ We concur with this statement and note that, not only does the Purchasing Division not have data on overall state purchasing, but that there is a substantial lack of summary data on purchases processed by the division. Information to evaluate performance in general or on specific purchases can only be gathered with a manual review of purchase order files. Internal management data necessary to determine future policy on purchasing or even to rate staff performance is difficult and time consuming to gather.

Estimates by the Council of State Governments' report indicated that 30 percent of all transactions

¹ Examination of Montana's Purchasing System, Interstate Consulting Clearinghouse of Council of State Governments, p. 20, November 1978.

are processed outside of central purchasing. Purchasing Division management has no means to assess the total dollar amount of purchases which bypass central purchasing. An automated purchasing information system would have interface capabilities with the Statewide Budgeting and Accounting System (SBAS). Requiring agencies to detail product purchases according to a Purchasing Division developed commodity code system would allow management to review all state purchasing and adjust procedures accordingly. This system would require that all state agencies utilize commodity codes when completing Transfer Warrant Claims for purchases coming under Purchasing Division authority. Current SBAS coding by object of expenditure is not sufficiently detailed to provide information on the specific product purchased.

Information not now readily available, which the automated system could provide, includes:

- a centralized bidders list;
- a greater breakdown and cross-reference of the bidder lists by commodities;
- bidder response rates;
- purchase volume data to enhance term contract and time schedule buys;
- summary data to evaluate the quality of vendor bid response;
- vendor compliance data;
- purchasing workload data to assess staff performance and scheduling of volume buys;

--transaction data, including requisitions processed, purchase orders prepared, total dollar volume, and average turnaround; and

--automatically generated report on bid results.

All of the above data was noted as lacking in various sections of this report. Certain information, such as a central bidders list, could be manually organized. However, in order to continually update this information or to obtain current data on transactions, a manual system would consume a significant portion of staff time. Such a system would provide limited information and would not greatly enhance the Purchasing Division's ability to perform its function.

Currently Purchasing Division personnel are so involved with day-to-day workload that little time is devoted to assessing overall procedures. User agencies, faced with processing delays and expanding turnaround times, may become leary of processing immediately needed purchases through the Purchasing Division. Benefits of central purchasing, although still apparent, would be diminished. In order to avoid this situation, staff time must be made available to improve methods, while improving performance sufficiently to assure user agencies that they are optimizing their buying power.

A computerized management information system could provide information and procedures to reduce processing time and overall state expenditures. Information supplied by the system can help reduce

inventories while assuring user agencies that they are optimizing their buying power. Two previous audits have recommended the creation of a management information system for the Purchasing Division. During this time period the complexity and dollar volume of supervised purchasing has increased dramatically. We therefore, recommend that the Purchasing Division resubmit a request for funding for a computerized management information system.

Automated Typing Equipment

A consistent complaint expressed by both buyers and Purchasing Division management related to the length of time necessary to process larger volume purchase documents, primarily Requisition Time Schedule (RTS) and Term Contracts (TC's), through typing. The Purchasing Division administrator also noted a clerical turnover problem. He attributed the turnover rate to the repetitive and continuous typing demands of the job.

Automated typing systems exist which can significantly reduce the amount of clerical time spent on repetitive typing. A master list for each RTS and TC could be maintained and automatically reproduced. Long or complex specifications would not have to be repeated on the request for quotations and the purchase order. This same equipment could be used to prepare vendor lists and addresses.

Maximum savings of clerical time can be attained with a combination of the information system and word processing equipment. Costs and benefits of word processing equipment will vary with the complexity of the system. However, with the current number of clerical positions and the amount of repetitive typing now performed, an automated typing system appears feasible. Purchasing Division management should review equipment needs to determine if word processing equipment would be cost effective.

RECOMMENDATION

We recommend that the Purchasing Division:

1. Resubmit a request for funding for a computerized management information system.
2. Determine if automatic typing equipment is cost effective.

CHAPTER VII
UNIVERSITY UNITS

Introduction

Montana State University, the University of Montana, and Eastern Montana College have been granted higher expenditure limits (\$1,000) before they must process requisitions through the Purchasing Division. This resulted from an agreement made in 1975 between the director of the Department of Administration and university personnel. The agreement designated that certain university personnel would be state purchasing agents.

The following guidelines for purchases under the agreement have been prescribed:

- \$100-\$500 - require local, informal quotations.
- \$500-\$1,000 - require formal written quotations.
- Over \$1,000 - require processing through the Purchasing Division.

The two major effects of the higher dollar limits are reduced processing costs and shorter processing time. These effects are achieved because many of the requisitions can be processed directly by the universities rather than by both the universities and the Purchasing Division. Still, during FY 1978-79 the Purchasing Division processed 2,394 requisitions for the three units which represents over 19 percent of the total requisitions processed by the Purchasing Division.

The three units are staying within the dollar limits set by the Purchasing Division. Our examination of the three university units' transfer warrant claims revealed that an insignificant number of purchases exceeded the dollar limit without processing through the Purchasing Division. This same examination indicated that the units are not relying heavily on local vendors with over two-thirds of the purchases made from vendors outside their local areas.

AREAS OF CONCERN

We examined each unit's operations for compliance with purchasing laws and Purchasing Division policies. This examination revealed several areas of concern:

- Quotations are not received by sealed bids or requested from the entire bidders list.
- The universities' bidders list does not contain all the vendors who have requested to be placed on the state's bidders list.
- Documentation on vendors contacted for telephone quotations is not always complete.
- Justification for emergency and sole source purchases is sometimes insufficient or not documented.
- Noncompetitive blanket purchase orders are used to purchase small items on a local basis.
- There are significant bypasses of term contracts and the Requisition Time Schedule.

The primary method of purchasing by the units involves requesting quotations on forms similar to the state's please write. These quotation forms are not sealed bids since they are opened as they are received

in the mail. If the unit uses one form, they can request quotations from three vendors. The three units normally request quotations from three to six vendors.

We examined the bidders lists at the three units to evaluate the competition being sought. We found that two of the units had adequate bidders lists arranged by commodity. The third had a list but it was not arranged by commodity. Also, the units do not have the same bidders list as the Purchasing Division. Two of the units requested these lists but the division did not send them copies. The units should have access to the Purchasing Division's bidders list since those vendors have requested to do business with the state.

On page 25 we discussed the problems with the Purchasing Division's use of please writes. We recommended that the Purchasing Division use sealed bids instead. Many of these same problems exist with the university units. If the recommendations in Chapter III to improve the Purchasing Division's bidders lists are implemented, then we also recommend that the university units send a request for quotations to all bidders on the bidders lists.

Two units obtain a substantial number of bids over the telephone. These units request that the vendors follow-up with written confirmation of their

quotations. The only documentation that the units maintain are the written confirmations of the low bidder. They should maintain documentation of all vendors contacted and their bids, to show they are purchasing through competitive bids.

All three university units lack sufficient justification and/or documentation for some of their emergency and sole source purchases. One unit had specific forms for the ordering departments to fill out but the justification they presented was often minimal. Officials from two departments we talked to at that unit said they often order materials as sole source and emergency to avoid the paperwork and therefore receive their order faster. Approximately 64 percent of a sample of purchase orders at this same unit were sole source and/or emergency purchases. The units should obtain and document adequate justification for emergency and sole source purchases. These types of purchases should be the exception rather than the rule.

We found that each of the universities use "blanket purchase orders" to purchase small items on a local basis. These blanket orders allow a department within the unit to purchase a category of items on an as needed basis up to a certain dollar amount. Blanket orders operate similarly to term contracts except that virtually all blanket orders are negotiated

rather than competitively bid. The Purchasing Division should evaluate "blanket purchase orders" to see if they can be competitively bid.

Our transfer warrant claim sample showed that the units have significant bypasses of term contracts and the requisition time schedule. A minimum of 6 percent of the transactions, or a projected \$43,000 in FY 1978-79 were bypasses of term contracts. Over 5 percent of the transactions bypassed scheduled calls for a minimum of \$25,000 in purchases. Of course, some of these purchases are justified emergency purchases. The units should attempt to minimize these bypasses because the savings from volume buying are lost.

Under the 1975 agreement between the Purchasing Division and the university units, division personnel were to visit each unit on a quarterly basis to review procedures. We found that such visits had not been made on a regular basis. In fact, each unit reported a single visit by state personnel since the agreement was signed. Many of the problems noted above could have been resolved or at least brought to the Purchasing Division's attention through quarterly reviews of the university units.

RECOMMENDATIONS

We recommend that the Purchasing Division:

1. Provide copies of the central bidders list to the university units.
2. Require university units to request quotations from all vendors on the bidders list.
3. Require university units to document each telephone quotation for all vendors contacted.
4. Require university units to obtain and document justification for sole source and emergency purchases.
5. Evaluate the universities' use of "blanket purchase orders" to determine if they can be competitively bid.
6. Attempt to minimize university bypass of term contracts and the requisition time schedule.
7. Visit the university units periodically as specified in the agreement which delegates purchasing authority.

CHAPTER VIII

PRINTING

INTRODUCTION

Section 18-7-106, MCA, requires the Department of Administration to prepare a purchase order prior to the ordering of printing services or grant its written approval before an agency purchases printing services. Purchasing Division management has granted a specific exemption to this law by allowing agencies to purchase business cards without a formal purchase order. Agency dollar limits do not apply to the contracting of printing services. Individual requisitions must be submitted for all contracted printing work, including work under term contracts.

Total expenditures for printing have been estimated by Purchasing Division personnel to be approximately \$4 million. A report produced by the Accounting Division, Department of Administration shows \$2.6 million expended under the printing services expenditure code. Several agencies code printing services to a general services category and fail to break expenditures down to specific expenditure codes. A notable example is Montana State University which shows no expenditures for printing services.

An estimated \$700,000 of printing services are purchased through term contracts; \$600,000 of this amount is awarded on the basis of discounts from the

Franklin Catalog. This publication is a nationally recognized service which provides printing cost estimates for various types of printing jobs to user printers.

Publishing Policy Committee

Legislation passed during the 1979 session created the Publishing Policy Committee. This group is charged with establishing standards for efficient and economical publishing of state documents and the review and approval of all proposals for publication. Directors of the Departments of Administration, Labor and Industry, and the Office of Program Planning and Budget staff this committee. Meetings are held on an as needed basis.

Standards for state documents have been approved by the committee in an effort to reduce their workload. Documents meeting standards for paper size, weight, and color are authorized without specific committee approval. Standard forms may also receive automatic approval.

Report on State Printing

A report on Montana's printing and duplicating operations was completed by a task force sponsored by the Council of State Governments. This report was finalized in July of 1979. The study found "a fragmentation of service and control among the various agencies which presently have the responsibility for

their own printing procurement."¹ Limited communication of standards, procedures, or guidelines was noted between the Department of Administration and user agencies.

We also noted "fragmentation" during our audit. Departments within state government maintain various levels of expertise and printing capability. Expertise ranges from total bewilderment to the ability to specify exactly what is desired. Printing capability follows roughly the same pattern, from use of photocopy machinery to typesetting and composing operations.

The principal recommendation made by the Council's evaluation was to create the position of "state printer." This position would be responsible for coordinating printing capabilities and reviewing individual jobs to determine if they should be accomplished in-house or contracted out. Transferring control of existing typesetting and composing equipment to the printer position was also suggested.

Reacting to this recommendation and recognizing the need for improvement in the manner printing was obtained, the department created the Division of Publications and Graphics. The administrator of this

¹ Examination of Montana's Printing and Duplicating Operations, Interstate Consulting Clearinghouse of the Council of State Governments, July 1979, p.1.

division will coordinate the state's printing activities. Printing functions such as graphics, duplication, vendor contracts, cost estimating and equipment purchase will come under the authority of this division. Requisitions for printing will still be processed through the Purchasing Division, however, they will be reviewed by the Publications Division before a decision is made to contract for printing services. The Publications Division is expected to begin operation in January of 1980.

PRINTING BREAKDOWN

Statutory law requires that printing contracts must be approved by the Purchasing Division regardless of dollar amount. The following table shows a breakdown by transaction amount and number of purchases recorded as printing service expenditures on SBAS. Total dollar amounts covered by this table represent about half of the estimated \$4 million in total printing expenditures.

PRINTING COST BREAKDOWN

<u>Dollar Value of Transaction</u>	<u>Total Dollars Expended</u>	<u>Number of Transaction</u>	<u>Dollars Per Transaction</u>
Under \$100	\$ 55,205	1,680	\$ 32.86
\$100 to \$500	189,227	814	232.47
\$501 to \$1,000	129,574	180	719.86
Over \$1,000	1,412,101	306	4,614.71
Total	\$1,786,108	2,980	

Source: Compiled by the Office of the Legislative Auditor.

Illustration 4

Agency Limits

From Illustration 4 we prepared the following analysis:

PRINTING COST BREAKDOWN ANALYSIS

<u>Dollar Value of Transaction</u>	<u>Percent of Total Dollars</u>	<u>Cumulative Total</u>	<u>Percent of Total Transactions</u>	<u>Cumulative Total</u>
Under \$100	3.1%	3.1%	56.4%	56.4%
\$100 to \$500	10.6%	13.7%	27.3%	83.7%
\$501 to \$1000	7.3%	21.0%	6.0%	89.7%
Over \$1000	79.0%	100.0%	10.3%	100.0%
	100.0%		100.0%	

Source: Office of the Legislative Auditor.

Illustration 5

The analysis shows that the majority (56.4%) of printing transactions processed through the Purchasing Division are for \$100 or less. In fact, 83.7 percent of all printing transactions are for \$500 or less. Based upon this information, we questioned the cost effectiveness of having all printing contracts approved by the Purchasing Division.

In Chapter V, we noted that the Purchasing Division recently raised the dollar limits under which agencies are allowed to purchase items directly. We performed a similar analysis on purchases of printing products. We noted earlier that the Purchasing Division saves on the average 4.1 percent over the agency estimates. Applying this to a \$500 printing purchase means that the Purchasing Division will have to save on the average \$20.50 on a \$500 purchase to justify its involvement.

Although many printing purchases are accomplished under established term contracts, we estimated that purchases under the term contracts cost at least \$20 to process. This includes the agencies cost to prepare the requisition, as well as Purchasing Division's cost to prepare and mail a purchase order. Based upon this estimate, the Purchasing Division should consider seeking legislation to establish agency dollar limits under which direct agency printing purchases would be allowed. The specific dollar limit could be determined by the Purchasing Division based upon a break-even analysis of actual costs to process printing purchases.

RECOMMENDATION

We recommend that legislation be enacted to allow the Purchasing Division to authorize direct agency purchases of printing services under specific dollar amounts.

DISCOUNTS FROM THE FRANKLIN CATALOG

During fiscal year 1978-79, ten Class 2 and 2A contracts were bid by the Purchasing Division based on percentage discounts from the Franklin Catalog. Class 2 contracts represent printing of booklets, pamphlets, and brochures. Class 2A contracts are for broadsides, circulars, programs, folders, and envelope enclosures. We estimate that these term contracts represented \$600,000 in expenditures in FY 1978-79.

Competition for the Class 2 and 2A term contracts has slackened over the last five years, with two firms dominating bid awards. In contrast, individually bid printing jobs receive a high bidder response rate and are considered very competitive. To determine why this has happened we contacted several printers across the state. They responded that they either did not use the Franklin Catalog for price estimates or that the Franklin Catalog represented average printing charges and they could not compete with discounts ranging from 31 percent to 40 percent. They further indicated that discounts of this amount would eliminate any possible profit. Contract recipients stated they were able to offer these discounts because of efficient operations and basic economies of scale. One profit area indicated was the state established paper prices. These prices established in the term contracts were based on specific quantities of paper purchased. By purchasing quantities over the specified amount, better prices are achieved.

Analysis of Franklin Catalog

Based upon our preliminary review, we expanded the scope of our analysis. Since the basis for awarding the ten contracts was a discount from the Franklin Catalog price we attempted to verify actual term contract charges to agencies.

We first contacted printing firms. All firms contacted stated that catalog charges could be widely interpreted and individual charges had to be based on the firm's equipment and personnel. Based on this statement, we selected a sample of printing items produced under Franklin Catalog based term contracts and reviewed charges made.

To aid in our review, two separate printing experts were contacted. We also asked a number of printing firms involved in printing on state contracts to evaluate certain sample charges made and determine their validity. Interpretations of valid charges varied considerably among the samples reviewed and the reviewers themselves. We were not able to obtain a consistent opinion on the validity of specific charges made for the samples.

An example of the different interpretations appears in Illustration 6. In this table we compare printing job cost estimates of the firm compiling the Franklin Catalog to estimates compiled by the contract holder. Both estimates are based on catalog costs and do not involve discounts from the Franklin Catalog. Price estimates in these ten randomly selected samples vary from a 2 percent difference to a 72 percent difference. These examples reinforce the statement that there is a high degree of variability in interpreting charges under the Franklin Catalog. This also

indicates that awarding a contract based upon a discount which is subject to variability does not provide for adequate competition.

PRINTING SAMPLE EVALUATION

<u>Sample</u>	<u>Firm that Compiles Franklin Catalog</u>	<u>Vendor Interpretation of Franklin Catalog</u>
A	\$1,376.75	\$2,026.45
B	247.60	294.06
C	1,537.00	1,925.56
D	4,875.80	5,020.63
E	4,940.70	8,507.99
F	156.85	176.41
G	1,497.25	1,529.79
H	218.15	343.34
I	698.80	670.90
J	1,072.25	1,183.72

Source: Office of the Legislative Auditor.

Illustration 6

Agency Examination of Printing Charges

Attempting to determine the extent of agency review of detailed charges made, we took these same sample items to the agencies requesting the printing. Of seven agencies contacted, only one individual had a working knowledge of the Franklin Catalog and this individual did not have a copy of the catalog. Without knowledge of the Franklin Catalog and a current copy, it is impossible for the agency to determine whether charges made are accurate according to the catalog. Additionally, none of the agencies contacted maintained a current copy of the term contract, although some were aware of the actual discounts bid.

Detailed billings of charges under printing term contracts are sent directly to the ordering agency for review and approval. With the lack of agency knowledge of the catalog or contract terms, no thorough review of contractor charges is taking place.

This problem may be alleviated somewhat by the creation of the Publications and Graphics Division, if experienced personnel within this division perform a review of detailed billings. However, if such personnel are not available to review billings, agencies are in the same situation of not being able to determine the validity of charges under these term contracts.

Based upon our review of printing term contracts, bidding a discount from the Franklin Catalog does not set a firm price. We noted that interpretations of proper prices under the Franklin Catalog vary significantly. This, combined with the fact that only the agencies review the billings and the agencies have little knowledge of the catalog, means that there is no purchasing control over state printing charges under the Franklin based term contracts.

A review of neighboring states showed that the primary method utilized to obtain outside printing services was through competitive bidding. No other state we contacted used the Franklin Catalog as a means to award printing contracts. Additionally, the Council of State Governments' report on Montana's

acquisition of printing services states that term contracts based on discounts from the Franklin Catalog are too broad and tend to limit competition.

If agency dollar limits for printing that were recommended earlier are established, then printing purchases on the remaining "high dollar" items should be competitively bid.

RECOMMENDATION

We recommend that the Purchasing Division discontinue establishing printing term contracts based on the Franklin Catalog and use competitive bidding for "high dollar" printing service purchases.



AGENCY REPLY



DEPARTMENT OF ADMINISTRATION
PURCHASING DIVISION



THOMAS L. JUDGE, GOVERNOR

CAPITOL STATION

STATE OF MONTANA

4061449-2575

HELENA, MONTANA 59601

March 18, 1980

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

RECEIVED

MONTANA LEGISLATIVE AUDITOR

Dear Morris:

The enclosed response is presented by the Department of Administration in reply to the Performance Audit of the Purchasing Division, including an Examination of Direct Agency Purchases dated March 3, 1980.

Chapter III, Page 12

RECOMMENDATION

We recommend that the Purchasing Division:

1. Document the justification for all sole source purchases.
2. Attempt to reduce the use of sole source purchases when possible.

COMMENTS

1. We concur with this recommendation. Purchasing Division policy provides that the justification for all sole source purchases be documented. Instructions will be issued to improve the exactness of the justifications.
2. We concur with this recommendation. Sole source purchases will continue to be eliminated whenever possible.

Chapter III, Page 13

RECOMMENDATION

We recommend that the Purchasing Division:

1. Place a statement on the face of the request for quotation form, when brand name specifications are used.

2. Limit the use of brand name specifications when possible.

COMMENTS

1. We concur with this recommendation. Although the "Request for Quotation" standard terms and conditions provides that brand named items or descriptions are specified solely for the purpose of indicating standards of quality, performance or use desired, the implementation of the recommendation may contribute to the receipt of more competitive bids.
2. We concur with this recommendation.

Chapter III, Page 15

RECOMMENDATION

We recommend that the Purchasing Division provide instructions to all buyers on the indicators of possible vendor agreements.

COMMENTS

We concur with this recommendation. Written guidelines will be issued establishing Division policy for the detection and reporting of possible vendor agreements or collusion.

Chapter III, Page 22

RECOMMENDATION

We recommend that the Purchasing Division:

1. Establish procedures for seeking additional vendors especially vendors suggested by state agencies.
2. Establish a centralized bidders list and vendor files.
3. Establish a purchasing code system that incorporates the use of commodity, agency, and vendor classifications.
4. Collect information on vendors' responsiveness.
5. Collect and document problems with vendor non-conformance in central vendor files.

COMMENTS

1. We concur with this recommendation. Division policy now requires any vendor suggested by an agency to be afforded an opportunity to bid. Efforts will be continued to expand the prospective sources of supply.
2. We concur with this recommendation. This recommendation has been initiated and a central bidders list of over 4,000 vendors names has been categorized and listed.
3. We concur with this recommendation. Limited budget and staff resources do not allow for the implementation of this recommendation at this time; however, it is the primary goal of the Division to establish an automated purchasing system incorporating a computerized coding of commodities, agencies and vendors. This program will be implemented as funding is provided.
4. We concur with this recommendation.
5. We concur with this recommendation. A vendor complaint form and filing system has been established which will allow for the determination of a vendor's status or the conditions of award of a contract.

Chapter III, Page 23

RECOMMENDATION

We recommend that the Purchasing Division:

1. Establish and communicate rules for proper agency documentation of competition.
2. Offer and supply agencies with sections of the bidders list for the commodities they buy directly.

COMMENTS

1. We concur with this recommendation. Procedural guidelines will be provided through the Purchasing Procedures Manual (Revised 1-1-80), Division Newsletters and Procurement Training Classes conducted by Division personnel.
2. We concur with this recommendation. Sources of supply of the approximately two hundred seventy (270) commodities of purchase will be available to the State agencies.

Chapter IV, Page 28

RECOMMENDATION

We recommend that the Purchasing Division discontinue the use of please writes and request sealed bids from all vendors on the bidders list.

COMMENTS

We concur with this recommendation. Procedures will be initiated to discontinue the award of Request for Quotations by Please Writes.

Chapter IV, Page 33

RECOMMENDATION

We recommend that the Purchasing Division:

1. Attempt to reduce the bypassing of Requisition Time Schedule purchases when possible.
2. Investigate the possibility of central receiving at least for Helena area agencies.
3. Have regular meetings of buyers to discuss changes in the Requisition Time Schedule.
4. Seek input from agency personnel on suggested changes in Requisition Time Schedule commodities and schedule dates.

COMMENTS

1. We concur with this recommendation. Instructions requiring compliance with the Requisition Time Schedule will be reissued to the user agencies.
2. We concur with this recommendation. The Division is currently in the process of establishing a Central Stores Bureau in the Helena area which will allow for volume purchases and the distribution of agency office supplies and paper requirements. Future plans call for the consideration of incorporating a central receiving warehouse within that program.
3. We concur with this recommendation. The Requisition Time Schedule will be reviewed for consideration of revisions during the regular staff meetings as well as at the end of the calendar year.

4. We concur with this recommendation. Division policy will continue to encourage the receipt of recommended Requisition Time Schedule changes through regular agency contact, Procurement Training Classes and the Procurement Task Force.

Chapter IV, Page 39

RECOMMENDATION

We recommend that the Purchasing Division:

1. Call for and enforce contract terms requiring vendors to report their annual volume of sales.
2. Periodically evaluate relative purchase volumes of term contract products.
3. Continue efforts to educate state personnel in term contract procedures.

COMMENTS

1. We concur with this recommendation. Purchasing personnel will be required to systematically receive and record the volume of total sales resulting from annual term contracts.
2. We concur with this recommendation. The evaluation of the benefits of term contracts versus direct purchasing will continue to be conducted incorporating agency input and the Division's current procurement costs.
3. We concur with this recommendation. Instructions in addition to the Requisition Time Schedule and Local Purchasing Policy and the Purchasing Procedures Manual will be issued.

Chapter V, Page 43

RECOMMENDATION

We recommend that the Purchasing Division reschedule the awarding of term contracts and major requisition time schedule (RTS) buys to avoid the fiscal year-end.

COMMENTS

We concur with this recommendation. The Requisition Time Schedule is established with consideration given to the user agency needs, the manufacturers' production schedules and also with the intent to balance the Division's annual workload. Whenever feasible,

efforts will be made to reschedule major awards during more appropriate time periods.

Chapter V, Page 44

RECOMMENDATION

We recommend that the Purchasing Division use requisition cancellations for purchases inappropriate for the Purchasing Division to process.

COMMENTS

We concur with this recommendation. Guidelines will be provided to cancel requisitions whenever it is determined that the cost of processing is not cost beneficial and the encumbrance of funds can be accomplished through SBAS procedures.

Chapter V, Page 45

RECOMMENDATION

We recommend that the Purchasing Division periodically review dollar limits for agency level purchasing to ensure cost savings are occurring.

COMMENTS

We concur with this recommendation. The Purchasing Division will continue to periodically review the dollar limitations of local purchasing authority extended to the agencies.

Chapter V, Page 48

RECOMMENDATION

We recommend that the Purchasing Division:

1. Require submittal of already received agency purchases but discontinue processing confirming purchase orders.
2. Provide periodic agency reports on already received purchases.

COMMENTS

1. We concur with this recommendation. The Purchasing Division will initiate procedures to eliminate the processing of confirming purchase orders.

2. We concur with this recommendation. Procedures will be initiated directing agencies to provide a record of already received orders by submitting a requisition omitting encoding information and identified as "Already Received - Do Not Process".

Chapter V, Page 49

RECOMMENDATION

We recommend that the Purchasing Division establish and consistently apply written criteria for use of bid and performance bonds.

COMMENTS

We concur with this recommendation. Guidelines for reducing State procurement costs, while retaining a guarantee of the vendors compliance with contracts will be incorporated into revised bid security and performance bond policy.

Chapter V, Page 52

RECOMMENDATION

We recommend that the Purchasing Division:

1. Provide written guidelines on the determination of bidder's eligibility for the three percent resident preference.
2. Centralize the authority for making these determinations with one person.

COMMENTS

1. We concur with this recommendation. Written instructions clarifying the determination of vendors' eligibility for in-state preference will be issued.
2. We concur with this recommendation. Upon the receipt of recommendations submitted by the Division Purchase Agents, the final determination of vendors' three percent eligibility will be issued by the Assistant Administrator.

Chapter VI, Page 60

RECOMMENDATION

We recommend that the Purchasing Division:

1. Resubmit a request for funding for a computerized management information system.
2. Determine if automatic typing equipment is cost effective.

COMMENTS

1. We concur with this recommendation. A primary goal of the Division calls for the presentation of a request for funding and the receipt of authorization to implement an automated purchasing system capable of retrieving the amount of dollars expended by commodity, agency and to vendors.
2. We concur with this recommendation. In accordance with a Service Agreement entered into between the Department of Administration Information Systems Division and the Purchasing Division, the use of automatic typing equipment will be considered in establishing the most cost effective means of securing this important management information.

Chapter VII, Page 66

RECOMMENDATION

We recommend that the Purchasing Division:

1. Provide copies of the central bidders list to the university units.
2. Require university units to request quotations from all vendors on the bidders list.
3. Require university units to document each telephone quotation for all vendors contacted.
4. Require university units to obtain and document justification for sole source and emergency purchases.
5. Evaluate the universities' use of "blanket purchase orders" to determine if they can be competitively bid.
6. Attempt to minimize university bypass of term contracts and the requisition time schedule.

7. Visit the university units periodically as specified in the agreement which delegates purchasing authority.

COMMENTS

1. We concur with this recommendation. Copies of the Purchasing Division's central bidders list will be provided to the University Units.
2. We concur with this recommendation. The University Units will be directed to afford all vendors on the bidders list an opportunity to bid.
3. We concur with this recommendation. The University Units will be directed to document each telephone quotation received from prospective sources of supply.
4. We concur with this recommendation. The Purchasing Division will confirm that the terms of the Department of Administration and University Purchasing Agreement requires each unit to document the justification of sole source and emergency purchases.
5. We concur with this recommendation. The Purchasing Division will review the Universities' blanket purchase orders and recommend the elimination of negotiated contracts which are not competitively awarded.
6. We concur with this recommendation. The Universities will be advised to comply with the published Requisition Time Schedule and Term Contracts established by the Purchasing Division.
7. We concur with this recommendation. According to the delegated purchasing authority extended by the Department of Administration and Universities' Purchasing Agreement, the Purchasing Division will conduct quarterly reviews of procurement procedures.

Chapter VIII, Page 72

RECOMMENDATION

We recommend that legislation be enacted to allow the Purchasing Division to authorize direct agency purchases of printing services under specific dollar amounts.

COMMENTS

We concur with this recommendation. The Purchasing Division will delegate to the agencies the authority to secure basic printing services without processing a requisition and a resulting State

purchase order. According to the options provided within MCA 18-7-106, this authority may be issued by the Department, and eliminate the need of statutory changes, by providing written notification that orders may be directly placed according to the conditions specified in established Term Contracts.

Chapter VIII, Page 77

RECOMMENDATION

We recommend that the Purchasing Division discontinue establishing printing term contracts based on the Franklin Catalog and use competitive bidding for "high dollar" printing service purchases.

COMMENTS

We concur with this recommendation. Printing contracts awarded per discounts from Franklin Catalog will be discontinued. The Publications and Graphics Division will serve as a coordinating office with the Purchasing Division and prepare the specifications for individual jobs for the user agency. Detailed specifications will then be forwarded to the Purchasing Division for processing and competitive award on an item by item basis.

Sincerely yours,



DAVID M. LEWIS, Director

pj



